

Department of Legislative Services
 Maryland General Assembly

FISCAL NOTE

House Bill 1015 (Delegate Pitkin. *et al.*)

Economic Matters

Home Builders and Sales Agents of Home Builders - Licensure

This bill requires a person who sells real estate as a home builder or as a sales agent for a home builder to be licensed by the State Real Estate Commission.

Fiscal Summary

State Effect: General fund revenues could increase by \$180,000 in FY 1999. General fund expenditures could increase by \$607,000 in FY 1999. Subsequent year cash flows reflect annualization, inflation, growth, and a two-year licensing period.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	\$180,000	\$180,000	\$333,400	\$196,600	\$350,000
GF Expenditures	\$607,000	\$741,200	\$756,600	\$772,500	\$788,800
Net Effect	(\$427,000)	(\$561,200)	(\$423,200)	(\$575,900)	(\$438,800)

Note: () - decrease; GF - general funds

Real Estate Guaranty Fund: Real Estate Guaranty Fund revenues could increase by \$53,300 in FY 1999.

Local Effect: None.

Small Business Effect: Meaningful impact on small businesses.

Fiscal Analysis

State Revenues: This bill requires home builders and their sales agents to be licensed by the State Real Estate Commission. It is estimated that 2,000 home builders and 6,000 salespersons will become subject to the State Real Estate Commission's licensing

requirements as a result of this bill. Based on past experience, the commission expects it to take three years before all 8,000 people are licensed. The licensing fee is \$95 for home builders and \$45 for salespersons. Each applicant must pay a \$10 fee to take the licensing exam. Thus, in fiscal 1999, assuming that 2,667 new applicants become licensed, general fund revenues are expected to increase by \$180,000. Subsequent year revenue estimates are based on a two-year licensing period, 2,670 new licensees in fiscal 2000 and fiscal 2001, and 650 new licensees thereafter.

State Expenditures: Operating Expenses: Currently, the State Real Estate Commission handles 600 complaints per year. The commission expects to handle 1,000 new complaints as a result of this bill. In fiscal 1998, the Home Improvement Commission handled approximately 3,000 complaints and received an appropriation of approximately \$900,000. Based on the Home Improvement Commission's experience, it is estimated that it will cost approximately \$300,000 each year to handle 1,000 new complaints. Further, it is estimated that the commission would spend \$50,000 in expert witnesses each year as a result of the bill. Thus, adjusting for the bill's October 1 effective date, litigation costs are expected to increase by \$273,800 in fiscal 1999.

Additional equipment, travel, postage, and printing costs are expected to cause general fund expenditures to increase by \$84,100 in fiscal 1999 which reflects the bill's October 1 effective date and one-time start-up costs, and by \$67,100 annually thereafter.

New Staff Positions: The State Real Estate Commission will need to hire 11 new staff members to license home builders and their agents, and to handle 1,000 new consumer complaints. These 11 positions consist of one assistant attorney general, one administrator, two legal assistants, five investigators, and two contractual clerical staff members. These 11 positions would cost approximately \$249,200 in fiscal 1999 adjusting for the bill's effective date, and \$332,300 annually thereafter.

In sum, general fund expenditures could increase by an estimated \$607,000 in fiscal 1999 as summarized below:

Salaries and Fringe Benefits	\$249,200
Litigation Costs	273,800
Other Operating Expenses	<u>84,000</u>
Total FY 1999 State Expenditures	\$607,000

Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The Real Estate Guaranty Fund: The Maryland Real Estate Guaranty Fund compensates individuals for actual monetary losses due to acts or omissions that occur in the provision of real estate brokerage services where money is obtained through theft, false pretenses, embezzlement, forgery, fraud, or misrepresentation. The fund covers work by licensed real estate practitioners or their employees and will cover up to \$25,000 per claim.

The Real Estate Guaranty Fund is funded through assessments on real estate licensees. All applicants for an original license must contribute \$20 to the fund. As a result, guaranty fund revenues are expected to increase by \$53,300 during the first three years, and by \$13,000 in subsequent years. This reflects an initial three-year phase-in of 8,000 licensees, and 650 new licensees annually thereafter.

Small Business Effect: This bill requires home builders and their sales agents to be licensed by the State Real Estate Commission. Therefore, the bill could have a meaningful effect on home builders and sales agents organized as small businesses. It is estimated that 2,000 home builders and 6,000 salespersons will become subject to the State Real Estate Commission's licensing requirements as a result of this bill. These professionals would become subject to an initial exam, licensing and renewal fees, and continuing education requirements.

Small businesses which offer exam preparation courses or continuing education courses would experience increased demand for their services, which would cause their revenues to increase.

Information Source: Department of Labor, Licensing, and Regulation

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